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DE RUEHLU #1127/01 3091438
ZNR UUUUU ZZH
R 051438Z NOV 07
FM AMEMBASSY LUANDA
TO RUEHC/SECSTATE WASHDC 4407
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 LUANDA 001127

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FOR AF/S

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [AO](#)

SUBJECT: HUILA PROVINCE - GREAT POTENTIAL AND HUGE PROBLEMS

REF: A. LUANDA 1082

[1](#)B. LUANDA 164

[1](#)1. (SBU) Summary. An energy deficit and dilapidated infrastructure diminish Huila Province's economic potential. Investors have to provide their own electricity, water, transportation and security. The GRA's railroad rehabilitation, critical to reopening Huila's iron mines, is at a standstill. MPLA Secretary Joao Marcelino Typinge and Huila Province's Director for planning, Fernando Pontes Ferreira, both argue that Huila is free of internal strife, rich in economic potential and deserves more attention from the national government. Businessmen like Carlos Lemus of the Huila Industrial Association and Carlos Gomes, Operations Manager of Coca Cola and the N'Gola brewery, see a lack of policy support from the government made worse by active interference from officials. End Summary.

A Benign Environment?

[1](#)2. (SBU) Most of Huila's advantages are potential, its disadvantages, present realities. The advantages include abundant water, hydropower potential and fertile soil. Bad roads, lack of skilled labor, lack of electricity and delayed railway reconstruction (Reftel A) lead the list of negatives.

MPLA First Secretary Typinge said the number of voters registered during the 2006-2007 pre-election registration process shows Huila has overtaken Huambo to become Angola's third most populous province. Migrants arriving from Huambo and Bie Provinces during the war brought along their talents, Typinge asserted, permitting the Huila MPLA and provincial government to promote able individuals regardless of their birthplace or tribe, such as Governor Ramos da Cruz, a native of Kwanza Sul Province. Typinge also credits the Party's uneducated, "ignorant" veterans with having the foresight to send the party's future leaders to universities, enabling them to meet the country's needs. However, Carlos Gomes, Operations Manager of the N'Gola brewery and Lubango's Coca-Cola bottling plant, says that, while Angola's middle class has grown somewhat over the last ten years, GRA policies do not sustain its growth. Furthermore, Angola has more lawyers than mechanics -- Angolans are not learning the skills their country needs, he lamented.

Investment and Regional Integration

[1](#)3. (SBU) Carlos Lemus, Director of the Huila Industrial Association, said recent investments included a Coca-Cola bottling plant serving southern Angola, a brewery invested by South Africa's SAB-Miller, and a Zambian cigarette factory. The Planning Office's Pontes, an eager Huila booster who created a handsome book describing Huila to potential investors, divulged that he distrusts South African partners,

much preferring Huila do business with Portuguese, Spanish or Americans investors. (Pontes said most American and Canadian investment in Huila has been in the form of hospitals and schools built by NGOs.) Pontes also said he wants more mining interests to invest, but admitted Huila has no contemporary geological surveys to offer.

Entrepreneurs Meeting Officials

¶4. (SBU) Angola has emerged slowly from its 15-year experiment with socialism, according to Lemus, and few small businesses started since 1991 have grown into large ones. Domestic investments in Huila have revived a drinking water bottler, an abattoir, and several flour mills. Newly established factories produce such items as bricks, ceramics or stonework for the construction industry. Recent construction projects include the Chinese-built gymnasium used for the Afrobasket tournament, refurbished government buildings and motels to serve the Afrobasket fans, along with a casino. Huila's industry produces exclusively for the provincial market, except for ornamental granite, which is exported through the port of Namibe. Banks cannot count on the justice system, so they lend only to enterprises that already have both income and assets, said Lemus. Angola's informal economy, operating with powerful protectors, undersells and thereby undercuts the growth of legitimate businesses, he continued.

¶5. (SBU) Carlos Gomes, operations director of both N'Gola Brewery and the Coca Cola bottling plant in Lubango, Huila's provincial capital, said he can manage Huila's physical challenges: his plant purifies its own water, generates its own electricity (1 MW, according to Pontes of the Planning Office), imports all its ingredients, builds in longer lead

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times to allow for port delays, and buys extra delivery trucks to cope with bad roads. N'Gola trains its workers but then loses them to other companies offering higher salaries. Despite these difficulties, this year N'Gola invested USD 23 million and doubled beer production to 180,000 liters (48,000 gallons) per day. While the physical limitations are manageable, Angolan officials are not, he complained. His company's rules absolutely forbid paying bribes, he explained. He once waited 14 months for a work visa so a South African maintenance technician could visit for two weeks. Worse, he knows Angolan officials are not arbitrary when they enforce reasonable regulations. For example, he has never had problems with Angolan Customs, perhaps because of recent reforms to the Customs Code (Reftel B).

¶6. (SBU) Gomes says the GRA's public investment projects have not helped Huila economy. However, Planning Director Pontes looks to a new 60-MW oil-fired power plant, planned for neighboring Namibe Province, to give Huila the 40 MW it needs (Matala Dam only produces 23 MW). Angola's agreement with China for a line of credit reserves 30 percent of project cost for Angolan companies. Pontes declared that Huila companies will be ready to perform the work when these projects are let out for bids. Although wealthy Angolans own these companies, he argued they deserve the chance to grow and improve their capabilities.

Projects and Budgets and Bottlenecks

¶7. (SBU) Pontes said Huila needs more public investment projects (PIP) than the GRA can afford. (Note: The GRA's 2007 budget provides USD 94 million for Huila's public investment projects plus USD 8.1 million for the provincial hospital. The provincial operating budget is USD 197 million. End note.) The province itself controls only USD 20 million for public works with a USD 500,000 per project limit, but a new road between Lubango and its airport alone would cost USD 15 million, Pontes sighed.

Comment

8.(SBU) Self-congratulation from provincial officials implies that success is inevitable for Huila's economy. The darker private sector view, in contrast, describes a business environment where officials are usually a hindrance and success elusive. The province is only now restoring businesses that closed down during Angola's civil war. At worst, Huila may discover that a long civil war, high operating costs and over-priced labor have put success out of reach. While there has been progress on important projects, Lubango got its gymnasium on a rush basis, while the railroad, lynchpin of economic regeneration, languishes. Huila needs to implement -- not just plan -- physical and governmental improvements that will attract the broader range of new businesses it needs for economic growth.

FERNANDEZ